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FINANCIAL AND TECHNICAL COOPERATION

FINANCIAL MECHANISM: REVIEW PROCESS REFERRED TO IN DECISION 9/CP.1

Synthesis report

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I. INTRODUCTION

1. In accordance with Article 11.4 of the Convention, at its first session, the Conference of the Parties (COP) decided to review the financial mechanism within four years and to take appropriate measures, including a determination of the definitive status of the Global Environment Facility (GEF) in the context of the Convention. In decision 11/CP.2, in the context of guidance to the Global Environment Facility (GEF), the COP requested the Subsidiary Body for Implementation (SBI) at its fifth session to undertake the review process referred to in decision 9/CP.1 and to report on the outcome to the COP at its third session.

2. The SBI agreed to begin the review process on the basis of guidelines which specify objectives, a methodology and criteria, and invited Parties to submit views on their experience regarding the financial mechanism by 15 May 1997. It requested the secretariat to compile the submissions (FCCC/SBI/1997/MISC.3) and to prepare a synthesis report based on the submissions received and other information as enumerated in the guidelines, for consideration by the Parties at the sixth session of the SBI (FCCC/SBI/1997/6, paras 18-20 and annex II). As only few submissions had been received by 15 May, consideration was also given to additional communications which were received by 16 June 1997.

3. The following synthesis report takes into account eight submissions from Parties, including three from Africa, two from Asia, one from Latin America, one from North America and one by the Netherlands on behalf of the European Community and its member States. These were complemented by information provided by 25 non-Annex I Parties which had responded to a secretariat questionnaire on the status of preparation of national communications. In addition, information from other sources as enumerated in the guidelines was taken into account. Views received from an inter-governmental organisation, the Organisation of Petroleum Exporting Countries (OPEC) and a non-governmental organisation, Climate Network Africa, were also reflected.

4. Given the small number of submissions by non-Annex I Parties and the fact that the set of criteria were often not comprehensively addressed, this synthesis report should be considered bearing these limitations in mind. Information on the provision of support for national communications and other GEF financing for project activities can be interpreted with more confidence, however, as it is more broadly-based and factual data are available.

II. BACKGROUND AND INSTITUTIONAL DEVELOPMENT

5. The GEF had originally been established as a pilot programme to assist in the protection of the global environment and promote, thereby, environmentally sound and sustainable economic development. In response to the requirements of Articles 21.3 and 11, in particular to ensure that its membership be universal, the GEF organised restructuring

negotiations during the period April 1992 through March 1994. Through the Instrument for the Establishment of the Restructured GEF, the following purposes were pursued:

(a) Moving towards universal membership currently comprising 161 country Participants in the GEF;

(b) Its functioning under the guidance of the COP;

(c) The provision of financial resources on a grant or concessional basis; and

(d) Ensuring equitable and balanced representation within a transparent system of governance comprised of an Assembly, a Council and a Secretariat.

6. Annex D to the Instrument specified the principles of co-operation among the Implementing Agencies (IAs), the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP) and the World Bank, in particular their key roles in the implementation of the GEF-financed projects in their respective spheres of competence. A Scientific and Technical Advisory Panel (STAP) was established to advise the GEF on a range of strategic scientific and technical issues, while maintaining a limited, but important role in the project review process.

7. In decision 12/CP.2, the COP adopted and thus brought into force the Memorandum of Understanding between the COP and the Council of the GEF, subsequent to the approval by the latter. The Parties to this Memorandum agreed that its purpose is to give effect to the respective roles and responsibilities of the COP and the GEF, and to provide for the required interaction between them. It specifies procedures for the determination and communication of guidance from the COP to the Council of the GEF concerning the financial mechanism; the conformity with COP guidance; the reconsideration of funding decisions; the reports from the GEF to the COP; the determination of funding necessary and available as detailed in the Annex to this Memorandum; the cooperation between secretariats; the representation in meetings of governing bodies; and the review and evaluation of the financial mechanism. The Annex on the determination of funding necessary and available for the implementation of the Convention was approved by the Council of the GEF and is scheduled for approval by the COP at its third session.

8. The work programme on the GEF system of monitoring and evaluation, established by the GEF Council, includes independent evaluation, operational, scientific and technical monitoring and evaluation, and evaluation of strategic and cross-programme issues. Operational monitoring and evaluation should be based on the existing systems of the IAs while recognizing the need to harmonize the activities of the agencies to suit the needs of the GEF. STAP should play an important role in scientific and technical evaluation. The monitoring and evaluation activities to be carried out during 1997-1998 are outlined in the annex to the present document.

III. GEF OPERATIONS AND FUNDING REGARDING CLIMATE CHANGE

A. Operational Strategy

9. The GEF operations regarding climate change fall into the interrelated categories which are specified below:

(a) Enabling activities, representing a basic building block of the GEF assistance to countries (including inventories, compilation and analysis of existing information, policy analysis, strategies, action plans, and national communications);

(b) Projects developed under long-term operational programmes, which are in accordance with the initial three programme priorities approved by the COP, namely:
   (i) Removing barriers to energy conservation and energy efficiency;
   (ii) Promoting the adoption of renewable energy by removing barriers and reducing implementation costs; and
   (iii) Reducing the long-term costs of low greenhouse gas emitting energy technologies.

   In addition, other operational programmes to address transport and carbon sequestration are under development.

(c) Short-term response measures in the form of high priority projects which are in neither of the categories above, but yield climate change benefits at low cost.

10. In addition, the Project Development Funding (PDF), instituted at the November 1994 meeting of the GEF Council, is intended to provide the funding, when necessary, for project development from the initial concept stage to the final design.

11. In April 1996, the GEF Council approved its policy concerning public involvement in projects financed by the GEF. In approving the policy, the Council requested the GEF Secretariat to work with IAs in preparing operational guidelines for public involvement, namely: (a) to place emphasis on local participation and stakeholders; (b) to consider specific local conditions; and (c) to ensure that public involvement is consistent with provisions in the GEF Instrument.

B. GEF Funding of Activities in the Climate Change Area

12. According to the GEF Quarterly Operational Report of March 1997, the GEF has provided over $US 528 million in grant financing for climate change projects and project preparation. This total excludes funds for supporting multiple focal areas projects, such as the Small and Medium-Scale Enterprise Programme and the Small Grants Programme. The estimated share of GEF resources committed to climate change projects is approximately

39 per cent (biodiversity is 35 per cent; international waters 12 per cent; ozone 8 per cent; and multi-focal areas is 6 per cent).

13. There are currently 13 global and six regional climate change projects in place which receive funding amounting to almost $US 100 million and over $US 26 million, respectively. These projects, equivalent to about 20 per cent of GEF funding for climate change, include the Photovoltaics Market Transformation Initiative, the Renewable Energy and Energy Efficiency Fund and capacity-building activities.

14. For a large number of non-Annex I Parties, the GEF support to date is primarily through enabling activities. The GEF resources for these projects vary in size, but are typically of the order of US$ 300,000. According to the GEF, of the approximate 103 non-Annex I Parties included in the cumulative GEF work programme, as many as 90 countries were covered in national or global/regional projects that contain some or all the components required for the preparation of national communications. On the other hand, technical assistance or investment projects pertaining to one of the operational programmes had been developed in 25 countries which have not yet initiated the preparation of a national communication.

15. Concerning direct country projects, approximately $US 345 million were allocated within the financial mechanism, while $US 58 million went to climate change activities outside the financial mechanism. The cumulative GEF Work Programme covers a total of 77 projects through which direct support is rendered to 57 non-Annex I Parties. These include 39 enabling activities, 26 projects carried out during the pilot phase and 12 operational programme projects under the restructured GEF.

16. About $US 15 million are dedicated to country-specific enabling activities which can be considered under expedited procedures for an immediate disbursement of 15 per cent of the total project funds, in order to allow immediate implementation. During the GEF Pilot Phase, approximately $US 180 million were allocated to 26 national programmes in 21 countries, such as for the development of renewable sources of energy, energy efficiency measures and the development of coal-bed methane resources. Allocations for the same purposes under the restructured GEF totalled about $US 145 million, with 12 projects in ten countries. Over four fifths of GEF resources for country projects within the financial mechanism went to ten non-Annex I Parties. The GEF financing for project preparation under PDF Block B and C grants totals approximately US$ 5 million and covers 16 project concepts. Other project proposals not requiring project preparation financing are under preparation in the climate change area with the assistance of the IAs.

17. Information is available on the GEF work programme allocations, commitments and disbursements. Variations in the percentage of commitments and disbursements as related to allocations were discernable among the IAs. The higher rates of disbursement by UNDP and UNEP in comparison to the World Bank seem to reflect the magnitude, complexity and

longevity of World Bank projects, but may warrant further analysis in the context of the GEF Monitoring and Evaluation programme.

18. According to the report presented by the GEF to the SBI at its fifth session, the $US 528 million had then leveraged an additional $US 2,730 million in project financing. The total amount available for climate change project financing was thus $US 3,258 million.

C. The GEF Project Cycle

19. The cycle is initiated in accordance with priorities and needs expressed by non-Annex I Parties which approach the GEF through one of its IAs. Proposals, once endorsed by the requesting government and prior to being submitted to the GEF Council, are subjected to a review process, including the GEF secretariat, the IAs, the Convention secretariat and the STAP. Once approved by the GEF Council, or, in the case of enabling activities qualifying for expedited procedures, once approved by the Chief Executive Officer (CEO) of the GEF, the project document is finalized and signed by the agency and the recipient country.

20. The analysis of information on enabling activities shows that the average period between country endorsement of a project proposal and its approval by the CEO on behalf of the Council is currently about six months, as compared to 15 months before expedited procedures were implemented by the GEF. According to information provided by the GEF in June 1997, there are currently 37 country-endorsed projects included in the list of enabling activities under expedited procedures. Of these projects, 26 have been approved by the GEF and can, therefore, be considered for at least a 15 per cent immediate disbursement. Four of these proposals have also been signed by the relevant IA, and are being implemented. Of the remaining 22 projects awaiting the signature by the IA, 17 had been approved by the Council between March and May 1997 and five dated from 1996 (FCCC/SBI/1997/MISC.4).

D. Project Development Support

21. To facilitate access to resources of the GEF and the preparation of projects, GEF project development workshops have been organised in Africa, Asia/Pacific, Latin America/Caribbean, Europe/Central Asia and Middle East/North Africa. Further regional workshops have been scheduled for 1997. The GEF organised two workshops at the fifth session of the SBI to better inform Parties how to access GEF resources and to share experiences in implementing climate change projects. The GEF and the Convention secretariat are collaborating to inform Parties of available support for preparing their national communication and provide technical backstopping.

IV. SUBMISSIONS BY PARTIES ON THEIR EXPERIENCE WITH THE GEF

22. In response to the invitation by the SBI a total of eight submissions were received from Parties until 16 June 1997. Of these, six were from non-Annex I and two from Annex I Parties. One of the latter was from the Netherlands on behalf of the European Community and its member States. The submissions referred, explicitly or implicitly, to the objectives and/or criteria spelled out in the guidelines adopted by the SBI at its fifth session. They are presented below in a summarized manner along with a number of recommendations made by them. It should be noted that submissions did not distinguish between the entities constituting the GEF, namely the Secretariat, the Council and the IAs. Neither did they specify the time-frame of the reported experiences.

A. Governance, Responsiveness and Effectiveness

23. Certain Parties expressed a continued need for additional information and enhanced transparency on GEF operations. Procedures for obtaining funding and the level of funding obtainable should be clearly indicated. This pertained to projects for the preparation of national communications as well as to programmes and projects under the operational strategy, like technical assistance and investment projects. In this context it was also mentioned that progress in transferring technology had been insufficient.

24. It was stated that GEF funding, such as allocations for the preparation of national communications, had not been timely, was insufficient in scope and unpredictable. This had caused delays in meeting commitments under the Convention and, in one case, in elaborating a national action plan. Due to problems in accessing the required GEF support, Parties had to resort to the alternative of approaching Annex I countries which, in some cases, had attached conditions not always in the interest of developing countries. Improved administrative procedures and more dynamic technical support were needed to reduce delays in project approval and implementation and to avoid inconsistencies and lack of responsiveness in the preparation, consideration and operationalisation of projects.

25. Other Parties felt that the restructuring and replenishment of the GEF, the development of its Operational Strategy and Programmes following the guidance of the COP as well as the agreement reached with the Convention on its Memorandum of Understanding were all part of a continuing process. Difficulties of developing countries in receiving adequate financial support for the preparation of national communications had been met by a prompt response from the GEF, including the timely disbursement of funds through a speeding up of procedures in the IAs. The funding process thus seemed to be functioning more effectively. In addition, the GEF was increasingly leveraging financial resources from both the private sector and co-funding sources.

26. Donors, being assured by these accomplishments, had committed over $US 2 billion to the first replenishment and saw a strong basis for future replenishment. The GEF was considered to have the means for effectively transferring new and additional resources to

developing country Parties to meet the agreed full costs of their obligations under Article 12.1 and the agreed full incremental costs of implementing measures that are covered by Article 4.1 and that are agreed in accordance with Article 4.3.

B. Recommendations

27. Increased sharing of experiences between donor and recipient countries was encouraged. It was suggested that the secretariat should arrange for experts from the GEF and its IAs to be available at the next meeting of the SBI to respond to any specific issues raised by developing country partners. It was recommended that funding through the GEF should be made available to allow Parties and Observers to exchange information and views on the implementation aspects of Specific Policies and Measures (P&M) taken by Annex I Parties. Workshops should be convened to discuss specific topics of the climate change agenda so that understanding would increase and capacities be developed.

28. In addition, non-Annex I Parties responding to the questionnaire by the secretariat on the Status of Preparation of National Communications almost unanimously called for workshops for exchanging information on emission factors and activity data and for regional and subregional workshops.

29. A continuous and sustainable funding approach was recommended in certain areas, in particular for activities related to the preparation of national communications. It was also suggested that projects for capacity-building should be executed by countries to ensure that they were indeed country-driven, cost-effective and targeted. In this context, a proposal was also made that the Convention secretariat should be in charge of allocating funding for the preparation of national communications so that non-Annex I Parties could comply with their reporting commitments in 1998.

30. Regional imbalances and weaknesses should be addressed. The level of participation at the GEF Council should be reviewed and regional views should be presented at its meetings. The allocation of funding to regions was seen to be imbalanced. Focal points in the African region should be strengthened to allow for an increased flow of information.

31. The submission by the Netherlands on behalf of the European Community and its member States recommended that the financial mechanism should be appointed on a continuing basis, dependent on a regular review process with a four year time-span taking into account the conformity of the financial mechanism with the guidance of the COP, the reports to the COP and the reports of the GEF's Monitoring and Evaluation Programme. The review process should be structured to monitor and influence the further improvement of the GEF in its role as the financial mechanism of the Convention.

32. Private sector involvement and innovative financial approaches and partnerships should be further encouraged in order to maximize the impact of resources available from GEF, especially where capital-intensive projects were concerned. Also, donors had encouraged the

GEF, in accordance with its mandate, to mainstream sustainable development concerns, especially climate change considerations, in lending practices of multi-lateral development banks, the World Bank and other institutions. The integration of global environment agenda into the core of programmes of IAs was welcomed. In this context an explicit request was made to the SBI that the necessary steps are taken to formally operationalise paragraph 2(a) of decision 11/CP 1.

V. RELEVANT INFORMATION FROM OTHER SOURCES

33. An intergovernmental organisation suggested that the vulnerability of countries to climate change mitigation measures should be one criterion of eligibility for funding by the GEF and recommended to increase the flow of information on the availability of its resources, including specific information on funding for project development and preparation.

34 A non-governmental organisation noted that funds for activities in developing countries were not adequate, predictable and disbursed in a timely manner and that the project approval process was lengthy. The sustainability of projects was not ensured as resources for follow-up activities tended to be lacking. It recommended that an inventory of resource flows to developing countries and regions be compiled.

VI. CONCLUSIONS

35. Based on the information in this initial synthesis report it is possible to identify accomplishments as well as to indicate how communication between the GEF, the IAs and the Parties could be improved and where immediate remedial steps could be taken to address general as well as country-specific problems. Additional information emanating from the GEF's Monitoring and Evaluation exercise is expected to be available in the fourth quarter of 1997.

36. The GEF has made considerable progress in terms of institutional development. Its restructuring, the conclusion of a Memorandum of Understanding between the COP and the GEF, the establishment of a Scientific and Technical Advisory Panel, the development of an operational strategy, the institution of expedited procedures for the approval of enabling activities, the institution of a Project Development Funding facility constitute significant milestones in this regard.

37. The first replenishment of the GEF amounted to circa $US 2 billion for all focal areas. GEF funding totalling US$ 528 million in grant financing has been provided for climate change projects and project preparation within and outside the financial mechanism. This financing has leveraged an additional US$ 2,730 million so that a total of US$ 3,258 million is available for climate change projects. In the first replenishment period, no climate change related activities were denied funding because of the unavailability of funds.

38. The GEF is supporting a substantial number of enabling activities for the preparation of national communications under Article 12. In this regard, expedited procedures have more than halved the lead time for project approval. There still appears to be a need to accelerate post approval procedures and implementation. Available support for project development should promote progress in launching and conducting the preparation of national communications by more non-Annex I Parties.

39. Funding of mitigation projects has begun in the areas defined in the three initial operational programmes for climate change. These include mainly projects in the areas of renewable energy development and energy efficiency.

40. Concerns have been expressed regarding the transparency of the GEF decision-making process, the adequacy, predictability and timely disbursement of funds for activities in developing country Parties.

41. It has been recommended that efforts be made to ensure the financial sustainability of GEF projects and to build up national and regional capacities, including public awareness. It was suggested that the provision of increased information on the procedures of the GEF and the exchange of experiences among and between non-Annex I and Annex I Parties could be helpful in this respect.

42. The Secretariat of the GEF and the IAs may wish to contact non-Annex I Parties whose submissions are contained in the compilation (FCCC/SBI/1997/MISC.3) with a view to resolving any outstanding issues.

43. A proposal has been made that the GEF should henceforth have continuing status as the operating entity of the financial mechanism, dependent on a regular review process.

Annex

GEF MONITORING AND EVALUATION PROGRAMME

1. Study on the GEF's Overall Performance: In the fiscal year 1997-1998, the Senior Monitoring and Evaluation Coordinator of the GEF is carrying out this study on strategic, institutional and programmatic issues. It is to assess to what extent the GEF achieved or is achieving the main objectives and guidelines of the pilot phase and of the restructuring in 1994. The study is to inform the GEF Assembly, planned for early 1998, the second GEF Replenishment Process and GEF stakeholders. The study will partly build on and complement three other GEF Monitoring and Evaluation products, which include the Evaluation of Project lessons and the Project Implementation Reviews (PIRs) for 1996 and 1997 encompassing overall portfolio review, financial analysis and a summary of implementation performance and key issues.

2. This study will be carried out during the period from April 1997 to February 1998. A Senior Advisory Panel of six to seven members will advise the Senior Monitoring and Evaluation Coordinator and the study team on the operationalisation, implementation and interpretation of the findings. Interviews with the Convention secretariat, implementing and executing agencies, STAP, NGOs and other relevant actors will be followed by 10 in-depth and six lesser country surveys. The draft report is to be circulated for internal and external comments in September 1997 and presented at a workshop during the GEF Council meeting and NGO consultation in November 1997. A presentation is foreseen during the COP in December 1997. The final report will be available in English, French and Spanish.

3. This study will address overriding issues related to the GEF's performance at the strategic, institutional and programme levels and draw on the above project reviews and evaluations. Among issues to be assessed are the following: (i) the GEF's role as a catalyst in providing and leveraging resources; (ii) the effectiveness of incremental cost financing in promoting relatively large numbers of projects and simultaneously economizing on the resources of the GEF; (iii) the role of the GEF in assisting non-Annex I Parties to fulfil their commitments under the Convention, in particular the modalities of co-operation between executing agencies and national host governments, institutions and stakeholder groups; (iv) the extent to which the GEF was helpful in promoting global environmental objectives in recipient countries; (v) the effective establishment of co-operation mechanisms and procedures for project cycle management between the GEF secretariat, IAs, STAP and the convention secretariats and other cooperation partners, including assessments of the extent to which the GEF has encouraged integration of global environmental objectives into mainstream operations of its IAs; (vi) approaches and strategies by the GEF to operationalise Convention guidance and Council decisions; (vii) examination of criteria and priorities for developing the overall portfolio, project selection and approval, the choice of viable concepts, technologies and designs, systems for learning from experience as well as demonstration and replication of promising approaches.

4. PIRs: In 1997, more than 100 projects which have been undergoing implementation for more than one year, will be reviewed, *inter alia* for their attainment of global environmental objectives and sustainable development. The main issues scrutinized bear relations to several criteria in the guidelines for the review of the financial mechanism. The PIRs are to consider: (i) prospects for sustainability and replication of project outcomes, including global environmental benefits; (ii) ways in which the latter and incremental costs are measurable and measured; (iii) experience with timely provision of co-financing and government counterpart contributions (cash and in-kind resources); (iv) experience with the involvement of stakeholders, the private sector and NGOs; (v) experience with regional collaboration mechanisms; (vi) assessment of innovative approaches; and (vii) information exchange and communication, including demonstration and replication of viable projects.

5. Evaluation of Project Lessons: This evaluation, begun in April 1997 and to be finalized in October 1997, is to determine the relationship between project features and performance and is to help implementing agencies to improve on project design. Phase I of the evaluation will analyse 30 pilot phase projects which had been under implementation for at least one year by 30 June 1996 and were selected because they performed well or worse than the portfolio as a whole. Features being monitored include the project design, implementation and management; beneficiary/stakeholder involvement; technological and institutional matters; country and regional context; and monitoring and evaluation. On the basis of the analysis, six to ten projects will receive field reviews in Phase II in order to deepen the conclusions and to illustrate the relationship between project characteristics and performance. Consultations with NGOs are foreseen as well.

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